

Message Text

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PAGE 01 LONDON 07851 01 OF 02 211832Z

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ACTION EUR-25

INFO OCT-01 EA-11 ISO-00 FRB-02 SP-03 AID-20 EB-11 NSC-07

RSC-01 CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02

EURE-00 CIAE-00 INR-10 LAB-06 NSAE-00 SIL-01 PA-04

USIA-15 PRS-01 DRC-01 /152 W
----- 111239

R 211815Z JUN 74

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 1487

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USDOC WASHDC

UNCLAS SECTION 01 OF 02 LONDON 07851

DEPARTMENT PASS TREASURY AND FRB

E.O. 11652:N/A

TAGS: ECON, UK

SUBJECT: ECONOMIC DEVELOPMENTS - WEEK ENDING JUNE 21

BEGIN SUMMARY: STERLING HOVERED AROUND \$2.39 AGAINST THE DOLLAR THIS WEEK, CLOSING ON THURSDAY (JUNE 20) AT \$2.3867, THE LOW FOR THE WEEK. THE TRADE WEIGHTED DEPRECIATION OF THE POUND REMAINED VIRTUALLY UNCHANGED FROM UNCLASSIFIED

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PAGE 02 LONDON 07851 01 OF 02 211832Z

LAST WEEK AT ABOUT 17 PERCENT. GOLD MOVED MARKEDLY DOWN-

WARD CLOSING ON THURSDAY (JUNE 20) AT \$152.00, DOWN \$5.25 ON LAST WEEK'S CLOSE. WHILE QUITE A NUMBER OF IMPORTANT STATISTICS WERE PUBLISHED THIS WEEK, OUR REPORTING OF THEM IS LIMITED BY A NEWSPAPER STRIKE ON THURSDAY AND FRIDAY AFFECTING THE TIMES AND THE FINANCIAL TIMES, AND A POSTAL SLOWDOWN WHICH HAS PREVENTED US FROM RECEIVING MANY PRESS RELEASES. BE THAT AS IT MAY, THE STOCK MARKET FELL TO A FIFTEEN-YEAR LOW ON THURSDAY (JUNE 20); UNEMPLOYMENT IN GREAT BRITAIN ROSE TO 561,400 OR 2.5 PERCENT (SEASONALLY ADJUSTED) IN THE PERIOD TO MID-JUNE; INDUSTRIAL PRODUCTION IN APRIL CONTINUED TO RECOVER FROM THE EFFECTS OF THE THREE-DAY WEEK; BASIC WEEKLY WAGE RATES ROSE 2.6 PERCENT IN MAY; AND THE GROWTH OF THE MONEY SUPPLY CONTINUED TO SLACKEN IN THE PERIOD TO MID-MAY.

END SUMMARY

1. STERLING HELD FIRM THIS WEEK, MOVING VERY LITTLE AGAINST THE DOLLAR AND OTHER MAJOR EUROPEAN CURRENCIES. THE POUND CLOSED AT \$2.3867 ON THURSDAY (JUNE 20), DOWN 45 POINTS ON LAST THURSDAY'S CLOSE. THE EFFECTIVE TRADE-WEIGHTED DEPRECIATION WIDENED TO 17.16 PERCENT ON MONDAY (JUNE 17), BUT FELL TO 17 PERCENT DURING THE REST OF THE WEEK. GOLD MOVED STEADILY DOWNWARD ALL WEEK STARTING FROM \$160.75 LAST FRIDAY (JUNE 14) TO CLOSE AT \$152.00 ON THURSDAY (JUNE 20).

2. BRITISH SHARE PRICES SLUMPED TO A 15 YEAR LOW ON JUNE 20. THE FINANCIAL TIMES INDEX OF 30 LEADING SHARES FELL TO 252.3, ITS LOWEST SINCE SEPTEMBER 28, 1959. THE PESSIMISM REFLECTS CONCERN OVER INFLATION, INDUSTRIAL UNREST OVER DEMANDS FOR COST-OF-LIVING PAYMENTS, AND APPARENTLY STAGNANT GROWTH PROSPECTS UNDER THE LABOUR GOVERNMENT.

3. UNEMPLOYMENT, ON A SEASONALLY ADJUSTED BASIS, ROSE IN GREAT BRITAIN TO 561,400 IN THE PERIOD TO MID-JUNE. THE PERCENTAGE UNEMPLOYED WHICH HAD STOOD AT 2.4 PERCENT SINCE JANUARY, HAS NOW RISEN TO 2.5 PERCENT. UNEMPLOYMENT FOR THE UNITED KINGDOM AS A WHOLE, ON AN UNADJUSTED BASIS, FELL BY 18,610 TO 543,036 OR 2.3 PERCENT. THIS WAS THE LOWEST SINCE JUNE, 1969.

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PAGE 03 LONDON 07851 01 OF 02 211832Z

4. LATEST FIGURES ON INDUSTRIAL PRODUCTION INDICATE THAT OUTPUT IN INDUSTRY DROPPED ABOUT 10 PERCENT, AGAINST EXPECTATIONS OF MORE THAN TWICE AS MUCH FOR THE PERIOD OF THE THREE-DAY WEEK. THE INDEX FOR MAY IS 2 PERCENT UP ON MARCH.

5. THE INDEX OF BASIC WEEKLY WAGE RATES STOOD AT 129.7 IN

MAY, AN INCREASE OF 14.9 PERCENT OVER THE PREVIOUS 12 MONTHS. THE INDEX OF BASIC HOURLY RATES WAS 130.3, UP 15 PERCENT OVER A YEAR AGO (JULY 1972 100). THE SPECIAL SUPPLEMENTARY PAYMENTS OF UP TO 1 POUND 20 PENCE PER WEEK UNDER THRESHOLD ARRANGEMENTS ACCOUNT FOR MOST OF THE CHANGE IN THE INDEX BETWEEN APRIL AND MAY 1974. THE INDEX OF AVERAGE EARNINGS ROSE BY 12.2 PERCENT IN APRIL. THIS COMPARES WITH AN INCREASE OF 15.2 PERCENT IN RETAIL PRICES IN THE SAME PERIOD; I.E. WHEN COMPARED WITH 12 MONTHS AGO.

6. EXPANSION OF THE MONEY SUPPLY CONTINUED TO SLACKEN IN THE MONTH TO MID-MAY, CONFIRMING THE SUCCESS OF OFFICIAL POLICY IN HOLDING DOWN THE MONEY STOCK. IN THE PAST THREE

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PAGE 01 LONDON 07851 02 OF 02 211836Z

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UNCLAS SECTION 02 OF 02 LONDON 07851

MONTHS, M3 HAS RISEN BY JUST UNDER 1 PERCENT-I.E. AN ANNUAL RATE OF 4 PERCENT-WELL BELOW THE 6 PERCENT JUMP RECORDED IN THE PREVIOUS THREE-MONTH PERIOD. M1 HAS SHOWN A 2.25 PERCENT RISE OVER THE LAST THREE MONTHS. THE SLOWER GROWTH IS DUE BOTH TO THE LACK OF PRESSURE FOR LOANS FROM THE PRIVATE SECTOR AND TO THE FAVORABLE POSITION OF THE CENTRAL GOVERNMENT DUE TO CONTINUED SUBSTANTIAL SALES OF GILT-EDGED STOCKS.
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PAGE 02 LONDON 07851 02 OF 02 211836Z

7. FORWARD DISCOUNTS ON STERLING WIDENED MARKEDLY THIS WEEK.

	6/13	6/20	CHANGE
1 MONTH	0.45	0.75-1/2	UP 0.30-1/2
3 MONTHS	2.03	2.88	UP 0.85
6 MONTHS	4.75	6.30	UP 1.55

(ALL FIGURES IN CENTS)

8. LOCAL AUTHORITY DEPOSIT RATES FELL OFF A BIT TOWARDS THE END OF THE WEEK.

	6/13	6/20	CHANGE
1 MONTH	11-7/8	12	UP 1/8
3 MONTHS	12-1/16	11-5/8	DOWN 7/16
6 MONTHS	12-7/16	11-5/8	DOWN 13/16

9. EURODOLLAR RATES MOVED UPWARD OVER THE WEEK.

	6/13	6/20	CHANGE
1 MONTH	11-7/8	12-3/16	UP 5/16
3 MONTHS	11-3/4	12-3/16	UP 7/16
6 MONTHS	11-5/8	12-1/16	UP 7/16

10. THE BANK OF ENGLAND'S MINIMUM LENDING RATE REMAINED 11-3/4 PERCENT ON FRIDAY, JUNE 21.

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